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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

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| RETAIL GROUND AND PARCEL SELECT GROUND SERVICE STANDARD CHANGES, 2022 | Docket No. N2022-1 |

# DIRECT TESTIMONY OF KEVIN P. BRAY ON BEHALF OF THE UNITED STATES POSTAL SERVICE

**(USPS-T-2)**

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**AUTOBIOGRAPHICAL SKETCH**

My name is Kevin Bray. I am the Executive Manager of the Mail Processing Infrastructure and Optimization group for the United States Postal Service, reporting to the Vice President of Mail Processing and Maintenance. I have held this position since May 8, 2021. In this role my office and I are charged with the development and support for mail processing systems and applications that enable Managers and Supervisors to process mail effectively and efficiently through the Postal network. I am also charged with the management of the Area Mail Processing team that provides implementation for all facility consolidations.

In my prior role as Area Manager of In Plant Support, Capital Metro Area, I was accountable for managing numerous Mail Processing operations and a transportation network servicing Georgia, North and South Carolina, Virginia, Maryland, and the District of Columbia. My 27-year Postal Service background is rooted in mail processing and operations serving as an Area Manager of In-Plant Support, Operations Support Specialist, Program Manager for Mail Tracking and Reporting, and Senior Business Programs Analyst. I have a degree in Electronics Technology from the Air Force Institute of Technology. I have also received certifications for lean practices and continuous improvement.

## ASSOCIATED LIBRARY REFERENCES

I sponsor the following non-public USPS Library Reference that are associated with my testimony:

USPS-LR-N2022-1-NP4.

## I. INTRODUCTION

My testimony describes the nature of the changes in service that the Postal Service proposes to implement in fiscal year 2022 to revise the current service standards for the Retail Ground (RG) and Parcel Select Ground (PSG) services. The Postal Service proposes to upgrade the service standards for RG and PSG in the contiguous United States from 2-8 days to 2-5 days. These changes would correspond to, and be enabled by, a simplified operational methodology whereby the Postal Service would process and transport RG and PSG products together with First-Class Package Service (FCPS) mailings.

My testimony aims to describe this new operational methodology (along with the improved service standards that this operational methodology makes possible) in detail. I accordingly begin by depicting the current-state operational flow of RG and PSG products, along with the service standards currently in place for RG and PSG products. I then describe the transportation network along which, in the future state, RG and PSG products would travel, along with the improved service standards for RG and PSG products that this network (which, as explained, will contain fewer touchpoints) would allow the Postal Service to meet. Finally, I describe certain exceptions to the planned changes, which subdivide roughly into two categories: RG and PSG shipments that would for the time being remain within the current transportation network, and to which the current service standards would therefore continue to apply; and RG and PSG shipments that, while falling within the planned service standards, would deviate from the operational methodology detailed below.

## II. PLANNED OPERATIONAL CHANGES

### A. Background

The RG and PSG products and the planned service standard changes are described in the testimony of USPS Witness Steven Jarboe (USPS-T-1).

### B. Present Operational State of Retail Ground and Parcel Select Ground

1. Retail Ground

It is useful, in conceptualizing the current-state trajectory of RG shipments, to list the processing nodes (or "touches") through which, from origin to destination point, those shipments travel.

- *Touch 1*: The trajectory of an RG package begins at the Post Office. A customer, seeking an economical shipping option for a package that meets the requisite weight and size criteria, purchases the Retail Ground Service product. A label bearing the Retail Distribution Code (RDC) for Retail Ground Service is affixed to the package to be shipped. This label corresponds to a bin for Retail Ground mailings, to which the package is accordingly consigned.[1] These bins may bear one of two designations: "Retail Ground 1," for packages shipped to tier the 1 host Network Distribution Center (NDC) for local destination points; and "Retail Ground 2," for packages that will travel longer distances and are (as described below) routed to the tier 2 NDCs for destinations outside the local area.
- *Touch 2*: The Retail Ground bins travel to a Processing and Distribution Center (P&DC). P&DCs, generally speaking, are facilities that process and dispatch

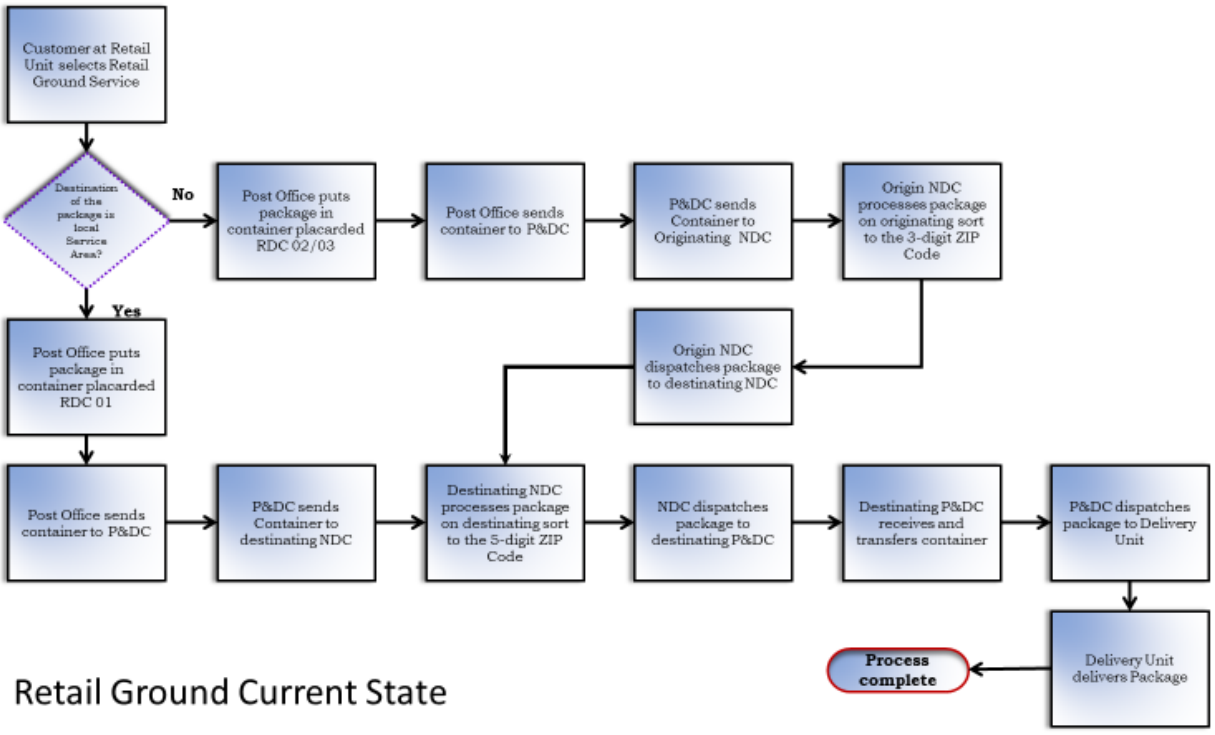
[1] The RDC value printed on the mailing label corresponds to a placarded container in which the Retail Associate is to place the mail piece. If the ZIP Code on any RG package is within the ZIP Code of the local NDC, then the package will receive a "1" on the label. RDCs 2 and 3, on the other hand, are assigned when the destination ZIP Code falls outside that of the local NDC.

volume arriving from Post Offices and collection boxes in specific geographic locations. Here, RG bins are grouped together and placed on trailers that convey them to geographically appropriate NDCs.

- *Touch 3*: Formerly known as Bulk Mail Centers, NDCs are designed to consolidate the processing of certain categories of mail. This means, in practical terms and with specific reference to RG Service, that the RG bins arriving from the P&DCs mentioned above are sorted into groups based on their respective destination ZIP Codes. Note that at this point in the operational flow methodology, a bifurcation occurs. RG bins bearing the "Retail Ground 1" designation—*i.e.*, bins containing packages shipped to local destination points—arrive at tier 1 host NDCs, where they are sorted based on their full five-digit destination ZIP Codes and are then routed to geographically appropriate P&DCs. RG bins bearing the "Retail Ground 2" designation—*i.e.*, bins containing packages shipped to destination points outside the local area—arrive at tier 2 NDCs, where they are sorted based on the first three digits of their destination ZIP Codes and are then routed to destinating NDCs for further processing (as described in "Touch 4" immediately below).
- *Touch 4 (for RG packages bearing the "Retail Ground 2" designation, which travel to destinations outside the local area*): RG bins bearing the "Retail Ground 2" designation, previously sorted by 3-digit ZIP Code, are conveyed to destinating NDCs, which further disaggregate those bins' contents based on their full five-digit destination ZIP Codes. This newly sorted RG volume is then distributed to geographically appropriate P&DCs.

- *Touch 5*: Destinating P&DCs combine the RG volume they receive with other mail destined for the same 5-digit ZIP Code, and convey these new groupings to destination delivery units.
- *Touch 6*: From these destination delivery units, RG packages are delivered to their destination address.

Below is a graphic representation of the current-state trajectory of RG shipments, accounting for the difference between local-destinating and non-local-destinating shipments:



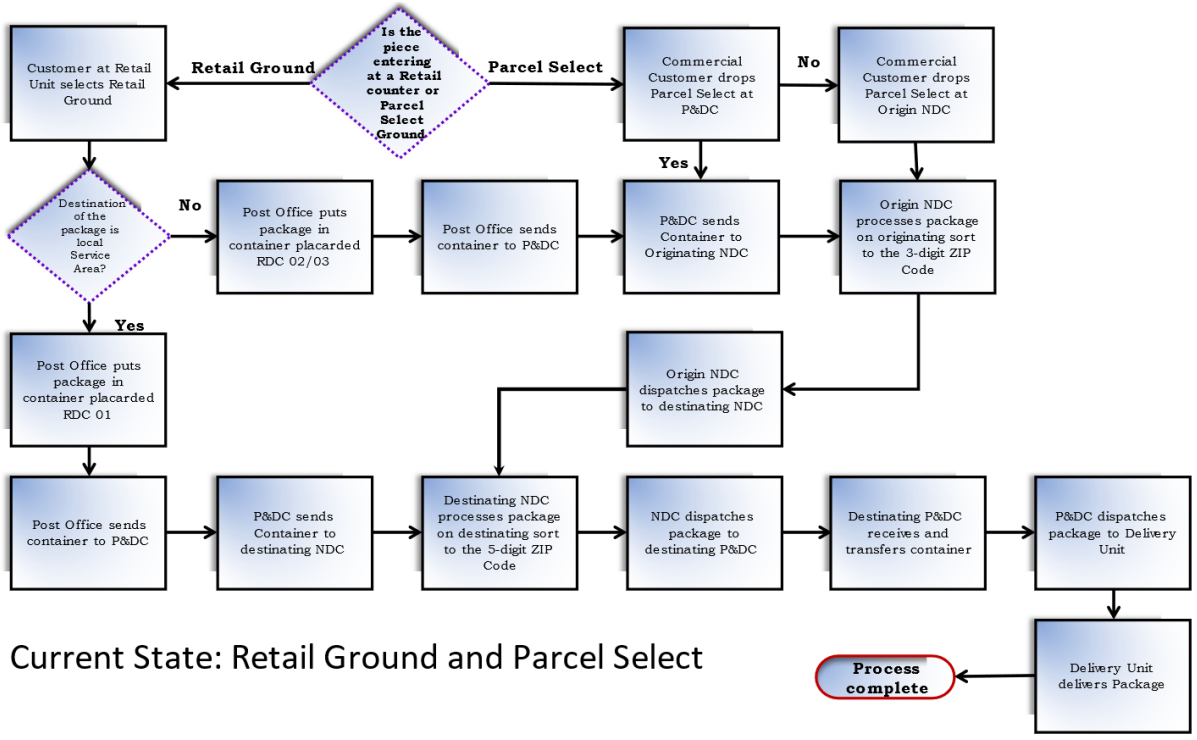

Retail Ground Current State

2. Parcel Select Ground

The PSG Service is similar to the Retail Ground Service but is targeted at large- and medium-sized commercial shippers (including competitors like FedEx and UPS).

As such, the current state trajectory of PSG packages is identical to that of RG packages—with one difference: PSG need not originate at Post Offices, but can be received at P&DCs or NDCs, at which point it continues along the path described above.

Below is a graphic representation of the combined current-state trajectory of RG and PSG shipments, accounting for the difference between local-destinating and non-local-destinating shipments:




Current State: Retail Ground and Parcel Select

The service standards and corresponding business rules for PSG shipments are identical to those for RG shipments.

**C. Future Operational State of Retail Ground and Parcel Select**

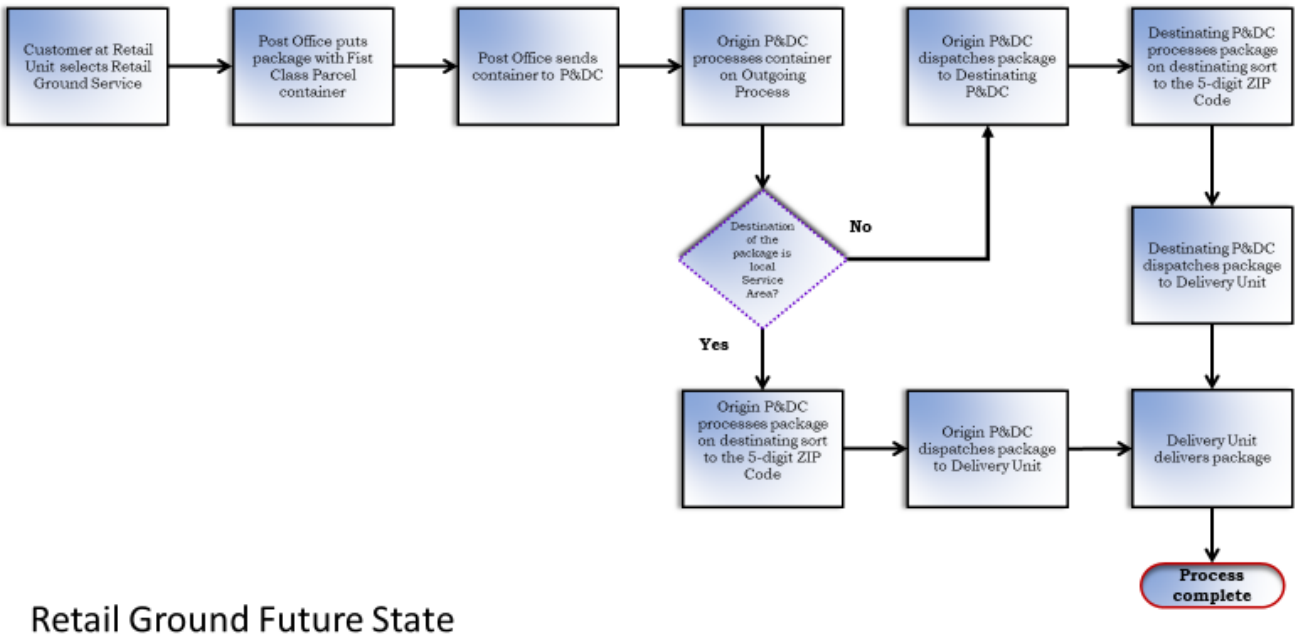
1. <u>RG</u>

*a.) Operational Flow*

In the future state, in the contiguous U.S., certain RG packages would be processed and transported together with First-Class Package Service (FCPS) shipments. This consolidation would result in a new operational flow, which boasts the advantage of requiring fewer touchpoints.

- *Touch 1*: As in the current state, RG packages would begin their future state trajectory at a Post Office, where they would be merged with FCPS shipments. (Note that the distinction, in the current state described above, between "Retail Ground 1" and "Retail Ground 2" labelling would no longer be required.)
- *Touch 2*: RG packages would then travel to origin P&DCs, where they would be sorted based on their respective destination ZIP Codes. (Note that at this point in the future state operational flow methodology, a bifurcation would occur: RG shipments heading to local destination points would be sorted based on their full five-digit destination ZIP Codes and would then be routed to delivery units for final delivery, whereas RG shipments heading to destination points outside the local area would be sorted based on the first three digits of their destination ZIP Codes and would then be routed to destinating P&DCs for further processing).
- *Touch 3 (for RG packages travelling to destinations outside the local area)*: Based on their 3-digit ZIP Codes, RG packages would next travel to destination P&DCs, where they would be further sorted based on their full five-digit destination ZIP Codes, merged with other volume destined for the same ZIP Code, and conveyed within this new grouping to destination delivery units.
- *Touch 4*: From these destination units, the RG packages would then be delivered to their destination addresses.

In the future state, the RG packages would therefore traverse fewer discrete touchpoints:




Retail Ground Future State

This streamlined operational scheme would allow certain RG items in the contiguous United States to reach their destination sooner. The Postal Service accordingly plans to implement, in lieu of the current two-to-eight day service standard, a two-to-five day service standard. Specifically, the Postal Service is planning to apply a two-day service standard where the combined drivetime between origin P&DC and destination P&DC is eight hours or less. A three-day service standard would apply to inter-Sectional Center Facility (SCF) volume where the combined drive time between origin P&DC, destination ADC, and destination SCF is more than eight hours, but does not exceed 32 hours. Where the drive time between origin P&DC, destination ADC, and destination SCF is between 32 and 50 hours, the Postal Service is planning a four-day

service standard. A five-day service standard would apply in the contiguous 48 states if the drive time between origin P&DC, destination ADC, and destination SCF exceeds 50 hours—for some lanes, packages may need to be transported by air to meet the 5-day standard.

Below is a table comparing the business rules currently in place to those that would be in place under the new operational methodology and its corresponding service standards. As can be seen, these changes would entail a marked simplification:

| Service Standard | Current Rules (Contiguous US) | Planned Rules (Contiguous US) |
|---|---|---|
| 2-day | If Origin and Destination Processing and Distribution Center (PDC) are the same facility, then Service Standard is 2 days. | Intra-SCF and Origin to Destination pairs where total transit time is up to 8-hrs* (~372 miles) from Origin to Destination ADC to Destination SCF. |
| 3-day | If Origin and Destination Processing and Distribution Center (PDC) are **not** the same facility, then the package is routed through a Network Distribution Center (NDC) and an Auxiliary Service Facility (ASF), if needed.<br>If Origin and Destination NDC are the same, and there is no ASF required, then Service Standard is 3 days. | Where the total transit time is greater than 8-hrs and up to 32-hrs* (~1,488 miles) from Origin PDC to Destination ADC to Destination SCF. |
| 4-day | If Origin and Destination NDC are the same, and there is an ASF required, then Service Standard is 4 days. | Where the total transit time is greater than 32-hrs and up to 50-hrs* (~2,325 miles) from Origin PDC to Destination ADC to Destination SCF. |
| 5-day | If Origin and Destination NDC are **not** the same, determine the travel days between NDC facilities.<br>If an ASF is not required, and the travel time between NDC facilities is 1 day or less, then the Service Standard is 5 days. | Where the total transit time is greater than 50-hrs from Origin PDC to Destination ADC to Destination SCF. |
| 6-8 day | If Origin and Destination NDC are **not** the same, determine the travel days between NDC facilities within Service Standard Directory (SSD).<br>If ASF is not required, then the Service Standard equals the travel time of 2 or more + 4. | N/A<br>N/A<br>N/A |

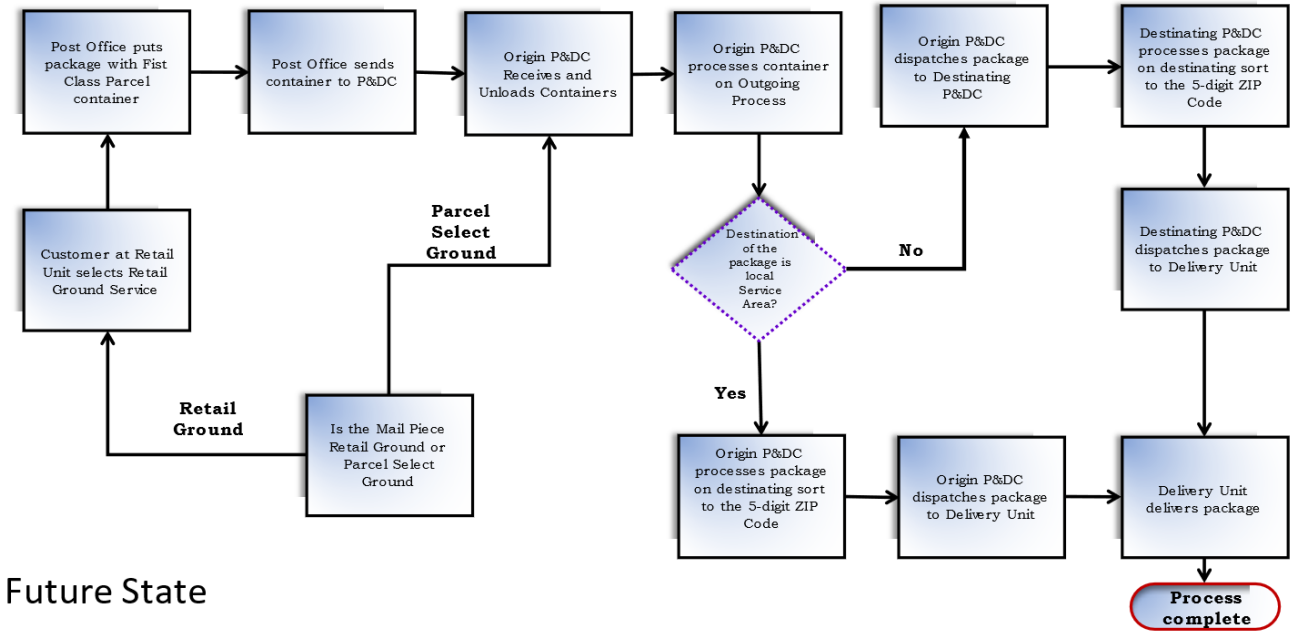
| | | |
|---|---|---|
| | If ASF is required, then the Service Standard equals the travel time of 2 or more + 5. | |

2. PSG

PSG Full-Network shipments,[2] in the future state, would follow the same trajectory as that outlined above for RG shipments—with one difference: as in the current state, PSG products could be deposited at P&DCs or NDCs as well as at Post Offices. PSG shipments deposited at P&DCs would be transferred to FCPS containers, along with RG shipments and PSG shipments originating at retail locations. PSG shipments deposited at NDCs would be routed to P&DCs, where they would likewise be transferred to FCPS containers.

Below is a graphic representation of the combined future-state trajectory of RG and PSG shipments, accounting for the difference between local-destinating and non-local-destinating shipments:

[2] To be clear, within the Parcel Select product line, the planned changes would only apply to the "end-to-end," or full-network PSG product and not to the Parcel Select Destination Entry product, which is subject to its own 1- to 3-day service standard.




Future State

The new service standards and corresponding business rules for PSG shipments would be identical to those for RG shipments.

### C. Benefit to Customers

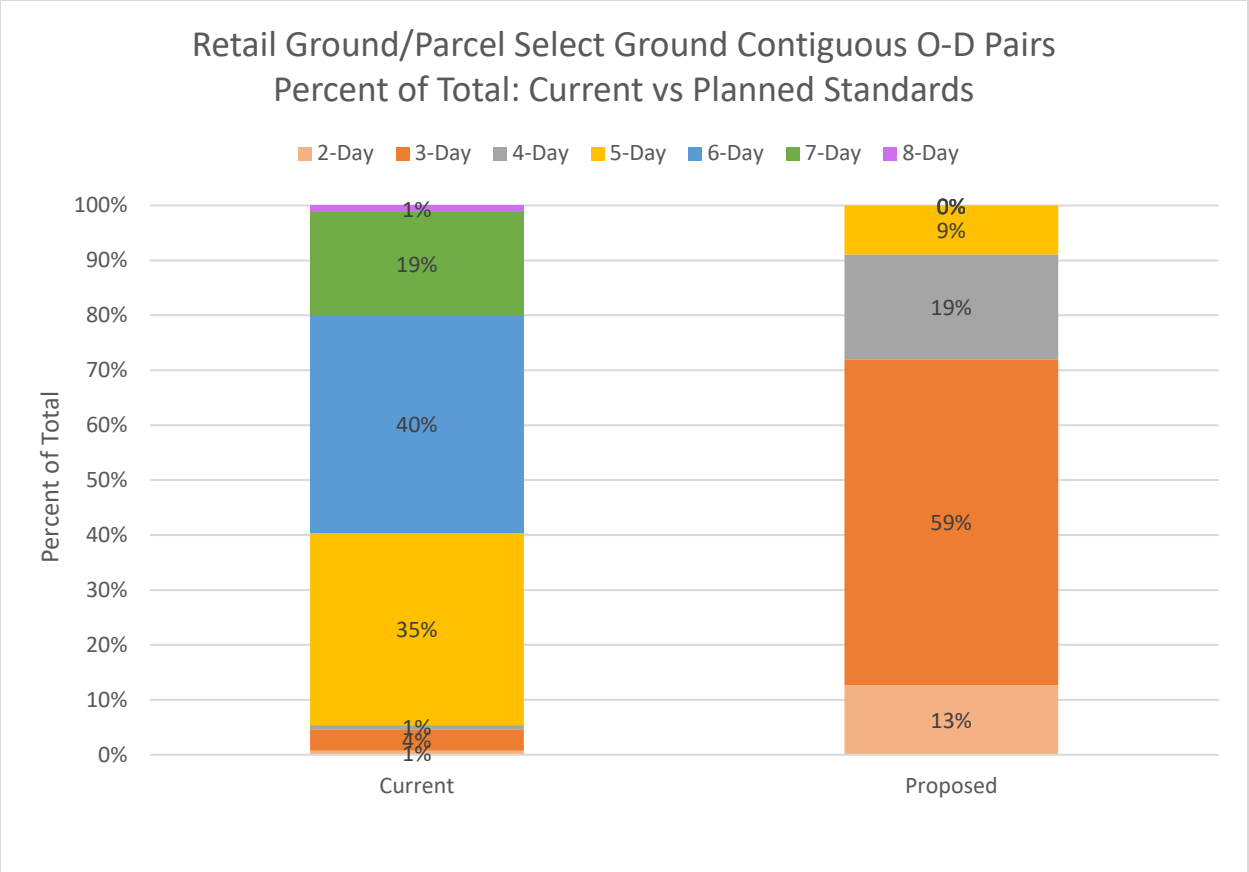
The fundamental benefit of the upgraded service standards is to enhance service to customers sending larger packages.[3] For both RG and PSG, the 3-digit OD Pairs in the contiguous United States subject to a service standard change would shift to align with those for FCPS in the Contiguous United States.[4]

[3] For information concerning volume impacts, see USPS-LR-N2022-1-NP4 (RG-PSG Service Standards Change to FCP - Contiguous Only.xlsx).

[4] Note that, despite apparent discrepancies, these numbers align with those presented in Library Reference N2021-2-LR-2, Model Input Data (Witness Hagenstein), filed in Docket No. 2021-2, June 17, 2021. The projected OD Pair realignment for FCPS there included offshore OD Pairs. The table below is restricted to OD Pairs in the contiguous United States. See USPS-LR-N2022-1-NP4 (RG-PSG Service Standards Change to FCP – CONUS_OCONUS.xlsx), and USPS-LR-N2022-1-NP4 (RG-PSG Service Standards Change to FCP - Contiguous Only.xlsx).

| Retail Ground and Parcel Select Ground | | |
|---|---|---|
| Number of 3-Digit OD Pairs in the Contiguous United States Subject to Service Standard Change | | |
| | Current Service Standards | Planned Service Standards |
| 2-Day | 6,305 | 105,049 |
| 3-Day | 31,973 | 491,638 |
| 4-Day | 6,554 | 158,612 |
| 5-Day | 290,402 | 73,655 |
| 6-Day | 327,556 | - |
| 7-Day | 155,939 | - |
| 8-Day | 10,225 | - |

As the volume shift described above indicates, this reallocation of service standards to OD pairs would represent a significant improvement over the current state:




The planned changes would have no effect on service standards for international packages. International Service Centers would continue to process packages destined for all international postal codes.

### D. Capacity

The Postal Service anticipates that the surface transportation network in place for FCPS contains sufficient capacity to absorb future volumes of RG and PSG shipments. In surface transportation for FCPS, floor utilization rates typically range from 42 to 48 percent.[5] Thus, from December 11, 2021, through March 7, 2022, plant to plant Highway Contract Route (HCR) transportation, excluding Surface Transfer Centers

[5] Note that these calculations average out floor utilization across the network, and are unweighted by mileage (*i.e.*, a 10-mile surface leg departing 50 percent full to pick-up volume from another site and then departing 100 percent full, traveling 500 miles, would result in 75 percent utilization).

(STCs), averaged approximately 46 percent. Floor utilization for STC transportation was only slightly higher at 62 percent.[6]

The relatively small volumes attributable to RG and PSG would not exceed the surface network's capacity. By occupying underutilized space, the bundling together of RG and PSG with FCPS would, in fact, be expected to confer gains in efficiency.

## III. Exceptions

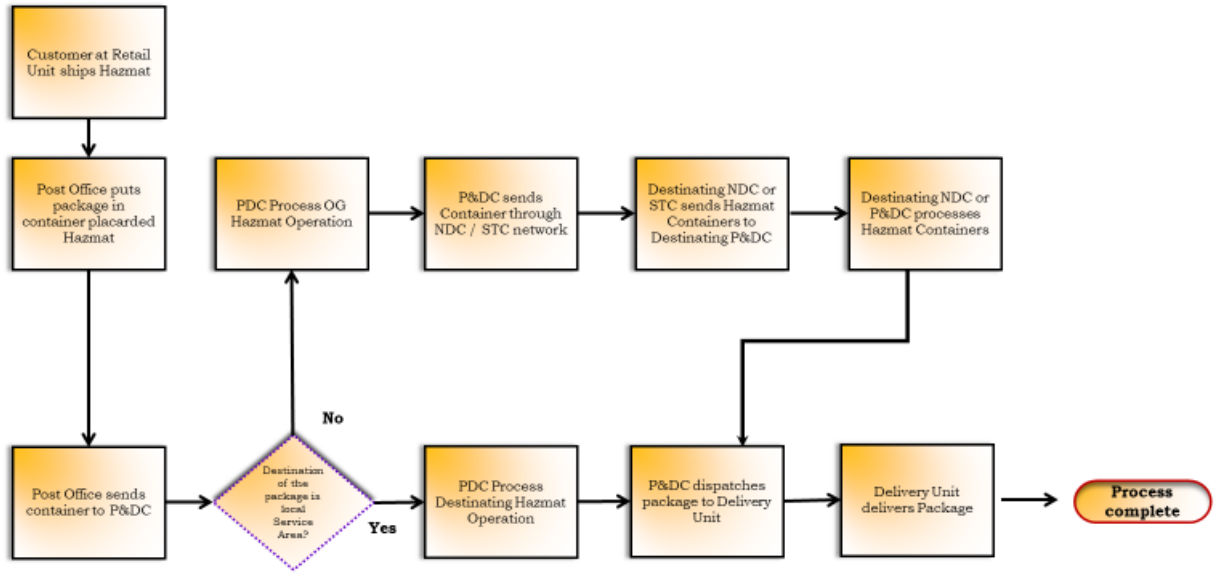
### A. Exceptions to the Planned Service Standard

The planned service standard changes would not apply to Hazardous Materials (HAZMAT) shipments, certain live animal shipments, and offshore (*i.e.*, beyond the contiguous United States, *e.g.*, Alaska and Hawaii) shipments, which would continue to travel via the transportation networks currently in place for them. They would therefore be exempted from the planned changes, and the service standards for each would accordingly remain unchanged.

HAZMAT shipments would continue to follow the path currently assigned to them; it is similar to that, described above, along which RG and PSG packages currently travel. That is, HAZMAT shipments would enter the Postal Service's network at a retail location, where they would be identified as HAZMAT and labelled accordingly; would then traverse several touchpoints, where they would be processed, sorted, and routed; and would be delivered to their final address from a destination area delivery unit. As with RG and PSG in the current state, HAZMAT containers shipped to local destination points would travel to P&DCs, where they would be sorted according to their full five-digit destination ZIP Codes; and would then be routed to destination area

[6] These data were drawn from the SVweb, Transportation Summary Dashboard.

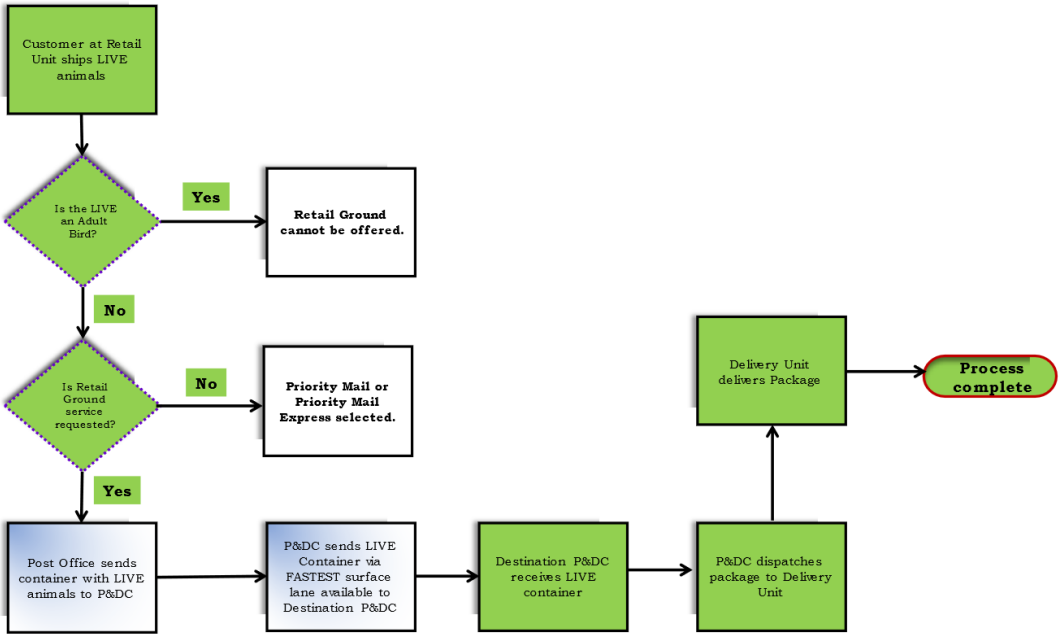
delivery units. HAZMAT containers shipped to destinations outside their local area would receive initial processing at P&DCs; would be routed to originating NDCs or STCs; would then be routed to destinating NDCs or STCs, where they would be sorted according to their full five-digit destination ZIP Codes; and would finally travel to destination area delivery units. The operational flow methodology for HAZMAT shipments in both the current and future state is, therefore, as follows:




Hazmat – STC Surface Network

Live animals shipped by RG would also be excepted from the planned changes. Note that only a subset of live animals are eligible to be shipped by way of RG. Those shipments would continue to follow the path currently assigned to them. That is, containers with live animals would be sent to an originating P&DC, which would dispatch them via the fastest surface lane available to a destination P&DC; from there, they would be conveyed to a delivery unit, from which they would be delivered to their

destination address. The operational flow methodology for live animal RG shipments in both the current and future state is, therefore, as follows:




Live Animals

Offshore products would continue to travel to geographically appropriate points of departure in the contiguous United States, from which they would be dispatched via cargo ship to offshore processing plants that would sort and convey them to Post Offices in their destination ZIP Codes for delivery. As for why offshore shipments would, at least initially, be excepted from any upgrade in service standards, please note that the new RG and PSG service standards are predicated on the planned change to the FCPS service standards and the concomitant improvement and optimization of the Postal Service's package processing and surface transportation network; they therefore depend on consolidation with FCPS domestic surface volumes. If the planned FCPS standards were applied to domestic RG and PSG packages originating and destinating outside the contiguous United States, that volume would have to be carried by air to

meet the planned service standard, which cannot be done cost effectively. Even after the planned changes come into effect, RG and PSG packages sent to or from domestic locations outside the contiguous United States would, for the time being, continue to be shipped by current modes of transportation in accordance with the current service standards. That said, the Postal Service is exploring whether this proposal could enable the Postal Service to adjust the service standards for pieces originating or destinating outside the contiguous United States which traverse the contiguous United States during some portion of their journey, in order, potentially, to leverage the faster service that this proposal would afford to RG and PSG within the contiguous United States.

**B. Exceptions to the Planned Operational Flow**

Given the current state of the FCPS surface transportation network, some RG and PSG packages travelling within the contiguous United States may need to be shipped via air transport. This may occur for one of two reasons: (1) surface transport is not feasible within the 5-day window; or (2) there is not enough density to justify the cost of ground transportation versus air. In selecting the proper mode of transport for a given shipment, the Postal Service first assesses the transit time between OD pairs to determine if the transportation network is capable of conveying it to its destination by the Critical Entry Time (CET). For this assessment, the following assumptions are applied: a departure time of ~4:00 a.m.; a driving speed of 46.5 mph the length of the OD pair; and an arrival time at the destination processing facility no later than the CET for the day before expected delivery. (Note that some flexibility persists with regard to origin departure time and highway speed, depending on the OD pairs involved). If, as would most usually be the case, delivery by surface transportation is deemed logistically

viable, cost would then be taken into account. Specifically, for any given package, the price of surface transportation over a given distance would be compared to the price that that package would incur on the air transportation network.[7]

Currently, an estimated 14.0 percent of RG volume and 15.6 percent of PSG volume travels by air. Based on the consolidation of RG and PSG with other First-Class volume, the Postal Service estimates that air volume for RG will increase to 28.9% and PSG to 15.88%.[8] The ratio of air to surface volume is expected to decrease over time. As the surface transportation network grows, the Postal Service will have less frequent recourse to the air transportation option, and it therefore anticipates that the air transportation option will eventually become almost entirely eclipsed by the surface transportation network. In that environment, a vast preponderance of RG and PSG packages would travel on the ground.

## IV. CONCLUSION

Shifting RG and PSG volume to follow FCPS volume would improve processing times by reducing the number of touches that RG-PSG packages receive during processing. Consolidation with FCPS would also enable the further optimization of the Postal Service's package processing and surface transportation networks and would maximize surface transportation utility and value. The elimination of interim processing

[7] In order to estimate surface transportation cost, the Postal Service (1) determines the total number of containers based on volume and National Distribution Labelling List separations; (2) the total cost of surface trip(s), using the formula (miles * $/mile * trips); and (3) the cost based on longest leg of trip (typically would be origin to DSTC). In order to determine the cost of air transportation, the postal service applies one of two formulas: (cu-ft of volume * $/(cu-ft); or, alternately air assignment (wt (lbs)) * ($/lbs). Assignment data can be used to determine weight and estimate cube, or pieces can be converted to cubic feet based on MODS conversions into containers.

[8] USPS-LR-N2022-1-NP4, Service Standard Impact Analysis.

stops would reduce the overall processing burden, and the combination of multiple sorts would improve volume and capacity in surface lanes.